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MARKET ADMINISTRATOR

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Prices and Margins for Fluid Milk

The Dairy Situation, Economic Research Service, USDA, July, 1966

Recent increases in prices farmers received for milk have been accompanied by rises in retail prices. This article examines trends and recent change in prices and the farm-retail price spread for fluid milk.

Long-Run Trends. From 1939 through 1948, farm prices of milk rose steadily, reflecting a strong demand for milk during World War II as well as the rise in the general price level. After a brief period of decline in farm prices and of stability in margins, prices and margins rose sharply during the Korean War and then dropped again as the war ended. Between 1954 and 1955, average prices received by farmers for milk used in bottling increased only slightly. However, retail prices continued to rise until 1961, thus raising the marketing margin. The price of home-delivered milk consistently exceeded the price charged at stores, and the differential has been widening. From 1961 through 1965, farm and home-delivered prices were steady, but store prices declined somewhat.

Comparisons. In the postwar period, fluid milk margins rose more than margins for most other dairy products and more than the average for all farm foods. Farm prices of

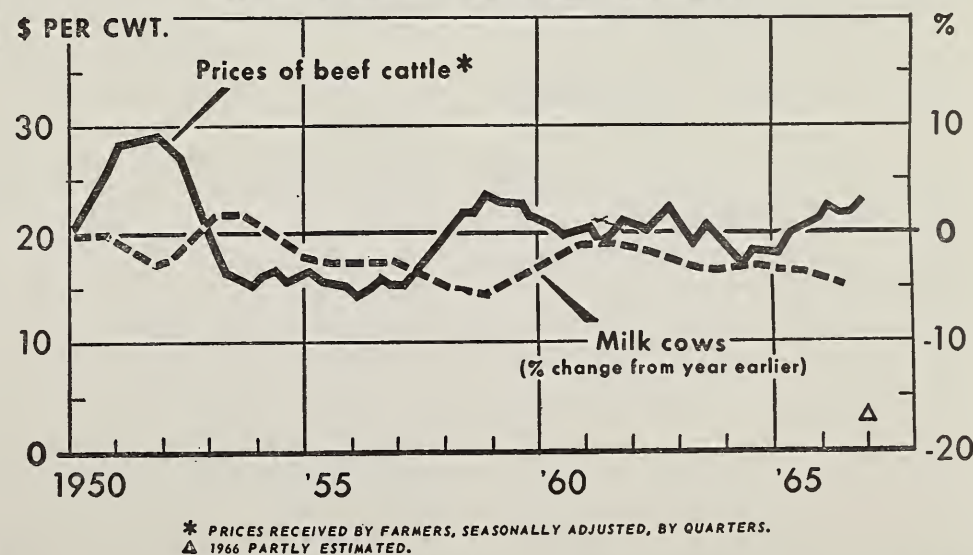
milk for fluid use held up better than the average or all farm products while retail milk prices rose more than average.

Among the dairy items, the greatest rise in retail prices and market-

ing margins in the postwar period was for processed cheese. Consumer demand for cheese rose more rapidly than for any other dairy product. Prices paid to farmers for milk for cheese-making have been somewhat firmer than for other manufactured

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CHANGES IN NUMBER OF MILK COWS AND PRICES OF BEEF CATTLE



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3879-66(8) ECONOMIC RESEARCH SERVICE

The beef enterprise uses many of the same resources as dairying. Therefore, the level of beef cattle prices compared with milk prices influences changes in milk cow numbers and the movement of farmers out of dairy production. The increase in beef cattle prices from 1950 to 1952 and again from 1956 to 1959 was accompanied by a quickening of the downturn in milk cow numbers. Similarly, higher beef cattle prices in 1965 and 1966 speeded the decline in milk cow numbers to a record annual 6 percent. In the last half of 1966 and in first half 1967, larger supplies of meat and poultry and higher milk prices likely will slow the milk cow decline.



Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

Producers' Uniform Price (3.5%)	\$5.37	\$4.94	\$4.50
Class I (3.5%)	5.68	5.51	4.84
Class II (3.5%)	4.20	4.05	3.25
Producer Butterfat Differential for each one-tenth percent	9.5¢	9.2¢	8.0¢

UTILIZATION SUMMARY

Percent of Producer Milk in Class I	78.5	75.0	77.7
Percent of Producer Butterfat in Class I	76.2	73.3	77.2
Percent of Producer Milk in Class II	21.5	25.0	22.3
Percent of Producer Butterfat in Class II	23.8	26.7	22.8

PRODUCER MILK RECEIPTS

Total Pounds Producer Milk Delivered	41,458,152	41,985,577	42,514,513
Average Daily Class I Producer Milk	1,337,360	1,354,374	1,371,436
Total Number of Producers	1,491	1,498	1,644
Average Daily Receipts per Producer	897	904	834
Average Butterfat Test	3.57	3.53	3.53
Total Value of Producer Milk at Test	\$2,243,998	\$2,169,574	\$1,915,240
Income per Producer (7 Day Average)	\$339	\$327	\$263

GROSS CLASS USE (Pounds)

Class I Skim	31,414,866	30,390,339	31,868,391
Class I Butterfat	1,126,740	1,086,941	1,158,102
Class I Milk	32,541,606	31,477,280	33,026,493
Class II Skim	8,565,049	10,111,710	341,497
Class II Butterfat	351,497	396,589	9,146,522
Class II Milk	8,916,546	10,508,299	9,488,019

AVERAGE DAILY SALES (Quarts)

Milk	381,206	371,485	396,835
Buttermilk	6,644	6,934	6,318
Chocolate	19,190	16,777	18,850
Skim	10,009	10,218	11,483
Cream	7,354	7,025	8,698

COMPARATIVE STATISTICS

COLUMBUS MARKETING AREA

AUG., 1957 - '66

Year	Receipts From Producers	Average Butter-fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class Prices at 3.5%				Number of Producers	Daily Average Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1957	23,766,796	3.64	80.7	8.8	6.7	3.8	4.41	4.579	4.179	4.079	3.076	1,892	405
1958	22,444,604	3.71	83.9	9.0	2.8	4.3	4.25	4.383	3.983	3.883	2.880	1,782	406
1959	25,347,579	3.64	85.2	9.1	2.3	3.4	4.37	4.479	4.079	3.753	3.054	1,738	471
1960	26,234,265	3.64	79.5	8.6	3.3	8.6	4.21	4.394	3.994	3.699	2.998	1,623	521
1961	26,599,504	3.60	78.1	8.5	4.9	8.5	4.47	4.664	4.264	3.927	3.254	1,218	705
1962	30,341,877	3.54	78.7	8.3	5.4	7.6	4.18	4.34	3.956	3.65	2.998	1,308	748
1963	34,665,174	3.56	79.1	8.9	4.8	7.2	4.23	4.40	4.01	3.715	3.063	1,359	823
1964	43,359,952	3.54	77.1	22.9	—	—	4.18	4.47	3.15	—	—	1,646	850
1965	42,514,513	3.53	77.7	22.3	—	—	4.50	4.84	3.25	—	—	1,644	834
1966	41,458,152	3.57	78.5	21.5	—	—	5.37	5.68	4.20	—	—	1,491	897

Five Million Market Cows Identified & Tested for Brucellosis

The Dairy Situation, Economic Research Service, USDA, July, 1966

Nearly 5 million cows were identified and tested for brucellosis during the past fiscal year — an increase of 1¼ million animals over the previous year, the U. S. Department of Agriculture reports.

Under the Market Cattle Testing program, cows 2 years of age and over are identified with their herd of origin through the use of back tags, ear tags, brands and other procedures and a blood sample is collected during the marketing-slaughtering process. The blood samples are submitted to a State-Federal Laboratory for the brucellosis test.

Through the animal identification procedures, animal health officials traced more than 93 percent of the 47,630 cows reacting to the brucellosis test to their farm or ranch of origin. Once this was accomplished, State and Federal veterinarians discussed test results with the producer and explored ways to remove the infection from his herd.

For the first time in the history of the State-Federal cooperative effort to eradicate brucellosis, the incidence of the disease in 4,927,385 identified-tested cows was less than 1 percent.

"If the use of animal identification for disease eradication continues to expand at its present rate — from 803,912 in 1961 to nearly 5 million last year — we'll be able to meet the 1975 target date for a brucellosis-free nation," predicts Dr. E. A. Schilf,

who heads brucellosis eradication work for USDA's Agricultural Research Service.

"Also, the eradication of this serious and costly disease from livestock eliminates the only source of human brucellosis or undulant fever in people."

Nationwide, 2,822 counties have achieved a Modified Certified Brucellosis status by reducing the incidence of the disease in cattle to less than 1 percent; of these, 702 counties have eradicated the disease to achieve a Certified Brucellosis-Free status. Altogether, 89 percent of the Nation's counties are certified.

"The big advantage of this program to the cattle producer is the elimination of nearly all the bothersome and costly on-premises testing the cattle herds," Dr. Schilf emphasizes. Presently, 37 States are market cattle testing more than 5 percent of their adult cow population — the number needed to maintain a Modified Certified status without on-farm, on-ranch testing. Of these 37 States, 23 are market Cattle testing more than 10 percent — the level of screening needed to achieve and maintain a Certified Brucellosis-Free Area status.

During the past fiscal year, 7 more States — Florida, Iowa, Kansas, Michigan, South Dakota, Utah, Wisconsin — surpassed the 5 percent testing level. California, Connecticut, Idaho, Illinois, Indiana, Massachu-

setts, Minnesota, Montana, North Dakota, Ohio, Tennessee, and Texas reached this level of activity a year ago.

An additional 7 States — Idaho, Indiana, Minnesota, Missouri, North Dakota, Pennsylvania, and Tennessee — reached the 10 percent plus category. They join Alabama, Arkansas, Georgia, Hawaii, Kentucky, Louisiana, Maine, Maryland, Mississippi, North Carolina, Oklahoma, Oregon, Texas, Virginia, Washington, and West Virginia — all testing more than 10 percent of their cows during the previous fiscal year.

Differences between slaughter value and milk cow price afford a measure of farmers' estimates of expected income from milk sales. These differences dropped from \$70 in 1965 to \$51 in early 1966, despite relatively high milk prices received by farmers and an optimistic dairy outlook. Apparently there is a considerable lag in farmers' responses to milk prices.

Fluid cream holdings, as of March 31, were sharply above last year and the 1960-64 average for the date. Holdings are heavily concentrated in the North Atlantic States to supplement milkfat supplies for ice cream manufacturers. Higher stocks apparently indicate that manufacturers are concerned about prospective tight supplies.

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PRICES AND MARGINS
FOR FLUID MILK

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products, but most of the retail price advance accrued to the marketing system.

Ice cream is at the other extreme. The shift from drugstore sales to the supermarket, from small packages (or hand packing) to the factory-packed half gallon, automation in processing, and the development of adequate refrigeration from factory to household actually reduced retail prices and marketing margins since the start of the data series in 1951. Retailer's use of ice cream price specials as a traffic builder also contributed significantly to the lower prices.

Fluid milk occupies middle ground in the array of changes in dairy product marketing margins. Marketing margins rose rather rapidly until 1960 when the margin on store milk reached a peak at 154 percent of the 1947-49 average. The average all-food index for that year was 136. Since 1960, the store milk margin dropped to 150 in 1965 while the all-foods margin rose steadily to 143 in 1964 and fell to 141 in 1965.

Automation and larger plants helped level and reduce fluid milk margins. Between 1965 and 1964, wage rates increased in all departments

Market Quotations

AUGUST
1966

MINNESOTA - WISCONSIN PRICE SERIES	\$4.26
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	4.10
Average Price per lb. 92-score butter at Chicago	.7305
Average carlot prices non-fat dry milk solids roller and spray process, f.o.b. manufacturing plant	.1963

of fluid milk plants. Wage rates of plant workers in 80 fluid milk plants increased by nearly one-half, while those of deliverymen and office workers rose about one-third. Increasing wage costs for plant workers were largely offset by improvements in productivity. Labor costs per unit of product increased 14 percent overall between 1956 and 1964, but only 3 percent for plant operations compared to 25 percent for delivery operations. Output per plant rose 90 percent between 1956 and 1963, as the number of plants fell drastically.

A second major improvement in the operation of the fluid milk industry was the shift from sale of home-delivered milk to sale at stores. This was facilitated by the development of supermarkets, the availability of home refrigerators, the adoption of paper containers, and increasing price differentials for milk sold in stores. In 1935, 70 percent of the fluid milk was delivered to homes; only 29 percent was so delivered in 1964. Compared with small-volume deliv-

eries to home, store distribution allows reduced marketing margins. Economies of large scale processing and distribution mean that much larger plants and sales territories are feasible than are now common in the industry.

This has brought pressure on processors and since 1953, a rather steady decline in net margins. Net margins of 80 fluid milk dealers fell from a peak of 63 cents per 100 pounds of milk processed in 1953 to 20 cents in 1963 and 26 cents in 1964.

The retail chains also exert pressure on processors. Some chains bottle milk for their own stores. The use of private labels is another competitive technique of retailers. A countervailing technique is the operation of dairy stores by milk processors.

Despite the rapid decline in the number of processing firms, in the 5 largest metropolitan markets of the United States, the 4 largest firms were doing about the same percent of the business in 1964 as in 1950.